Finance Canada

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GOVERNMENT ANNOUNCES FIRST BUDGET SURPLUS IN 28 YEARS

Finance Minister Paul Martin today announced that, for the first time in 28 years, the Government of Canada has recorded a budget surplus. The surplus was $3.5 billion for the fiscal year 1997-98.

"This is an historic milestone. And it is an achievement that belongs not to government but to Canadians themselves," Mr. Martin said. The $3.5 billion surplus has been applied directly to the debt – the first time the Government of Canada has paid down the debt in more than a generation.

Mr. Martin made the announcement when he presented the government's annual *Economic and Fiscal Update* to the House of Commons Finance Committee which is holding consultations leading to the 1999 budget. The update outlines economic and fiscal developments since the last budget, and highlights certain areas on which the government intends to focus to meet its goal of building a strong economy and secure society.

In his speech to the committee, Mr. Martin said the government will continue its balanced approach to economic and fiscal management by reducing the debt burden, investing in Canadians' highest priorities and reducing taxes. The overriding goal is to improve the standard of living and quality of life of all Canadians by putting in place the foundation for a stronger, more productive economy.

He said the government will balance the budget this year and the following year – providing three consecutive years of budgets that are balanced or better. It will keep the debt-to-GDP ratio falling permanently through the Debt Repayment Plan put in place in the last budget.

Mr. Martin cited health care as being at the top of the list of priorities for Canadians in every region of the country.

With regard to reducing taxes, Mr. Martin said the government will build in a measured and responsible way on the tax relief provided in previous budgets.

Mr. Martin cautioned, however, that despite the strong turnaround in the country's finances, "we must be realistic about the resources at our disposal".

"The international economy has entered a period of turmoil not seen for a very long time…Comparatively, Canada, while not immune to the economic volatility beyond our borders, is well positioned to weather the storm," he said.

Consistent with past updates, the Minister did not provide a revised estimate of the government's fiscal balance for this year or next. However, he noted that the recent downward revision in growth forecasts by private sector economists due to global economic conditions would lower their estimates of a federal government surplus in 1999-2000 from around $10 billion to around $5 billion – or to $2 billion once the $3 billion Contingency Reserve is subtracted.

"Those who propose that we can comfortably contemplate putting aside caution – especially now – are either shooting from the hip or suggesting that we should shoot ourselves in the foot," he said.

In assessing only some of the demands now being made on the government, Mr. Martin said it would cost $24 billion a year to finance a combination of a major personal income tax cut, a reduction in employment insurance premiums to the so-called "break-even" level, a significant increase in cash transfers to the provinces, and a larger attack on the debt.

"Apart from debt reduction, adopting any one of these proposals in their entirety would put us in financial difficulty," the Minister said. "That, quite simply, is the very worst thing we could do. Safeguarding our financial health at home is the *sine qua non* of riding out the global storm we are now in. Turbulence abroad mandates vigilance at home. Make no mistake. We will do what we can. But we will only do what we can afford."

Mr. Martin added that the House of Commons Finance Committee will be a very important forum for the debate that is now underway.

Other highlights of the *Economic and Fiscal Update* include:

Fiscal:

- Since 1993-94, the federal budget has swung from a deficit of $42 billion to a surplus of $3.5 billion – a $45.5 billion improvement in just four years.

- Of the $45.5 billion turnaround, cuts to ongoing program spending account for almost $17 billion. The bulk of the remainder was due to the effect of economic growth on revenues.

- In 1997-98, total program spending as a percentage of the economy stood at 12.7 per cent, a decline of 3.9 percentage points since 1993-94. This is the lowest ratio since 1949-50.

- The budgetary surplus means that the net public debt fell from $583.2 billion in 1996-97 to $579.7 billion in 1997-98 – the first decline in the absolute level of the net public debt since 1969-70.

- The debt-to-GDP ratio is now on a permanent downward track. It fell 3.3 percentage points to 67.8 per cent in 1997-98 – the largest single year decline since 1956-57.

- The 1997-98 fiscal year marked the second consecutive year that the government had a financial surplus – the difference between cash coming in to the government and cash going out – the first back-to-back financial surpluses since 1965-66.

- The government retired $9.6 billion of market debt in 1997-98. Market debt as a percentage of GDP fell from 58.1 per cent in 1996-97 to 54.6 per cent in 1997-98 – a decline of 3.5 percentage points.

- Fiscal progress at the federal level has been complemented by progress at the provincial level. The aggregate federal-provincial budgetary balance has swung from a record deficit of $66 billion in 1992-93 to a small surplus in 1997-98.

Economic:

- The outlook for world economic growth in 1998 has been revised down steadily over the past year, owing mainly to the financial crisis in Asia and Russia.

- This crisis and the accompanying weakness in global commodity prices have adversely affected Canada's trade sector, particularly in British Columbia. Better-than-expected economic performance in the U.S. in late 1997 and early 1998 has partly offset this weakness.

- Weak commodity prices have negatively affected Canada's terms of trade and have dampened nominal income growth, which is an important determinant of the government's revenue collections.

- Real output growth has also moderated recently, although some of this moderation reflects the impact of strikes and other temporary factors.

- Canada's success in eliminating the deficit and keeping inflation low has helped keep interest rates at historically low levels despite recent increases.

- As a result of world economic and financial turbulence, private sector forecasters expect the expansion to slow substantially in 1998 and 1999.

- Nevertheless, the International Monetary Fund still expects Canada to compare favourably to the rest of the Group of Seven (G-7) countries in real GDP growth in 1998 and 1999 and to be far in the lead in job creation.

Mr. Martin also released the *Annual Financial Report* of the Government of Canada for fiscal year 1997-98, a detailed account of the government's finances which has been audited by the Auditor General.

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